MANAGEMENT'S DISCUSSION & ANALYSIS

For the Quarter Ended February 28, 2015

Introduction

This Management Discussion and Analysis (MD&A) explains the material changes in Thermal Energy International Inc.'s ("Thermal Energy" or the "Company") financial condition and results of operations for the third quarter of Fiscal Year 2015, ended February 28, 2015. The unaudited condensed consolidated interim financial statements and accompanying notes constitute an integral part of the discussion and should be read in conjunction with this MD&A. During the period ended February 28, 2015, the Company's critical accounting estimates, significant accounting policies and risk factors have remained substantially unchanged. Additional information relating to the Company is available on SEDAR at www.sedar.com.

Currency

All financial information in this report is stated in Canadian Dollars, which is both the presentation and functional currency of the Company. Approximately 55% of our operations, assets and liabilities are denominated in British Pound Sterling. As such, foreign currency fluctuations affect the reported values of individual lines on our statement of financial position and income statement. When the Canadian dollar strengthens, the reported values decrease and the opposite occurs when the Canadian dollar weakens.

Review and Approval by the Board of Directors

The Board of Directors, on recommendation of the Audit Committee, approved the content of this MD&A on April 21, 2015. Disclosure contained in this document is current to this date, unless otherwise stated.

Forward-Looking Statements

This MD&A may include statements that are forward-looking. These statements are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. We discuss the principal risks of our business in Section 7 of this MD&A. We cannot provide any assurance that forecasted financial or operational performance will actually be achieved. If it is achieved, we cannot provide assurance that it will result in an increase in our share price. See Section 8 entitled "Forward-Looking Information".

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1. Our Business

1.1 Company Overview

Thermal Energy, established in 1991, is a global provider of proprietary and proven energy and water efficiency and emission reduction products and solutions to the industrial, commercial and institutional markets world-wide. The Company is headquartered in Ottawa, Canada, with offices in the U.K., Italy, U.S., and China.

Thermal Energy engages clients through a unique mix of process, energy, environmental and financial expertise to save our customers money and improve their bottom lines by reducing their fuel use and carbon emissions. The Company's award winning products have an excellent track record of longevity, proven reliability and performance and have been shown to provide: significant energy savings; improved water efficiency; reduced greenhouse gas emissions; lower maintenance costs; improved product quality; and increased production efficiency. Thermal Energy's products are effective in a wide range of industries and applications.

More information on Thermal Energy can be found at www.thermalenergy.com. **GEM®, FLU-ACE®, THERMALONOx™**, and **DRY-REX™** are trademarks of Thermal Energy.

1.2 Core Businesses

The Company operates in the energy efficiency industry in North America, Europe and the rest of the world. The Company markets, sells, engineers, fabricates, constructs, installs and supports two technology lines – heat recovery solutions (**FLU-ACE**®) and condensate return system solutions (**GEM**® steam traps). The Company is also developing a third technology line - low temperature biomass drying systems (**DRY-REX™)**.

Before 2007, the Company concentrated mainly on the selling of heat recovery systems but had begun selling **GEM**® product through a distribution agreement with Gardner Energy Management Limited, based in the U.K. In 2008, the Company acquired Gardner Energy Management Limited, which sells the **GEM**® product throughout the world. As part of this transaction, the Company also acquired the 67% share of GEMchem Ltd, a UK-based water treatment company providing services within the UK only.

The Company has two primary operational bases, one in Ottawa, Canada covering North America ("Thermal Energy Ottawa"), and the other in Bristol, United Kingdom, covering Europe and the rest of the world ("Thermal Energy Bristol"). Although the Ottawa base is deemed to be the center of excellence for **FLU-ACE**® heat recovery engineering and technical support, and Bristol the center of excellence for **GEM**® steam traps and condensate return system engineering and technical support, continuous cross-training means that both bases have expertise across both major product lines.

Although the Company markets its products throughout the world, the majority of sales are from within North America and Europe, due to the proximity to the Company's bases. While this continues to be the key focus, the Company also continues to look for new distributors in regions deemed to have potential.

1.3 Strategy

The Company's mission is to be a best-in-class provider of return on investment-driven thermal energy efficiency technology and solutions to the industrial, institutional, and commercial sectors world-wide, helping its clients improve their bottom line, move towards sustainable operations and reduce their environmental and carbon foot print. The Company's products and services are best-in-class with world-wide application in a broad range of sectors.

The Company has representation in 28 countries around the world with a current focus on the key markets of North America, Europe and the Middle East. Thermal Energy's penetration in these markets remains low and therefore the Company plans to continue growing its sales and distribution capabilities in these markets while at the same time begin to build its business in other energy-intensive markets around the world.

We have sold our proprietary and proven products to hundreds of companies and institutions, including approximately 50 large companies in the pharmaceutical, food and beverage, pulp and paper, chemical and petrochemical sectors across the globe. So far the Company has only partially penetrated 100 of the more than 2,000 global sites of these companies. Thermal Energy has executed a corporate-wide global roll-out of its product with two of these companies and is currently working with additional companies with the goal of executing similar corporate roll-outs.

With a global sales and distribution network the Company also has the opportunity to introduce new synergistic products and services, and acquire complementary products and businesses that can be distributed through our existing network.

Finally, the Company is also developing a number of recurring revenue streams such as rental and shared savings programs as well as service and maintenance programs.

2. Performance Measures

The Company believes the following performance measures provide useful information to both management and investors to better understand the financial performance and financial position of the Company.

2.1 Adjusted Operating Cash Flow

Adjusted operating cash flow (defined as income (loss) for the period, plus items not involving cash but excluding any changes in working capital items, plus finance lease payments received) is a performance measure used to gauge the cash generating capability of the Company. The impact changes in working capital items has on cash balances is excluded from the calculation of adjusted operating cash flow because changes in working capital items are usually only temporary and can fluctuate significantly from period to period and therefore are not a good indicator of the Company's longer term cash generating capabilities.

It is important to note that adjusted operating cash flow is not the same as net income, which includes transactions that did not involve actual cash outflows and excludes some transactions that did involve actual cash inflows. The calculation of adjusted operating cash flow starts with net income as identified in the Consolidated Statements of Comprehensive Income and then adds or subtracts a number of items identified in the Statement of Cash Flows. Adjusted operating cash flow does not have a standardized meaning prescribed by generally accepted accounting principles or International Financial Reporting Standards and therefore may not be comparable to similar measures presented by other companies. The most directly comparable measure calculated in accordance with generally accepted accounting principles within the financial statements is net cash provided (used) in operating activities, as disclosed in the statement of cash flows.

2.2 EBITDAS

Management believes that EBITDAS (earnings before interest, taxation, depreciation, amortization, impairment of goodwill and other intangible assets, share-based compensation expense and net write down of lease) is a useful performance measure as it approximates cash generated from operations, before tax, capital expenditures and changes in working capital and excludes non-operating items. EBITDAS also assists comparison among companies as it eliminates the differences in earnings due to how a company is financed. EBITDAS does not have a standardized meaning prescribed by generally accepted accounting principles or International Financial Reporting Standards and therefore may not be comparable to similar measures presented by other companies. The most directly comparable measure calculated in accordance with generally accepted accounting principles within the financial statements is income (loss) before income taxes, as disclosed in the statements of comprehensive income.

2.3 Order Backlog

Order backlog is a useful performance measure that Management uses as an indicator of the short term future revenue of the Company resulting from orders received. However, there is no comparable IFRS financial measure for order backlog. The Company includes in order backlog the value of projects in respect of which purchase orders have been received but have not yet been reflected as revenue in the Company's published quarterly financial statements. Order backlog does not have a standardized meaning prescribed by generally accepted accounting principles or International Financial Reporting Standards and therefore may not be comparable to similar measures presented by other companies.

3. Performance

3.1 Summary of Third Quarter Results

	Q3 2015	Q3 2014
	$	$
Revenue	**1,440,985**	2,897,535
Cost of Sales	**(729,079)**	(1,506,364)
Gross Profit	**711,906**	1,391,171
Administration, selling, marketing and business development expenses	**(1,392,551)**	(1,360,367)
Research and development expenses	**(38,182)**	35,079
Operating income (loss)	**(718,827)**	65,883
Finance Revenue	**12,134**	20,566
Income (loss) before income taxes	**(706,693)**	86,449
Income taxes (expense) recovery	**49,101**	(29,145)
Net income (loss) for the period	**(657,592)**	57,304
Exchange differences on translation of overseas operations	**130,314**	159,072
Total comprehensive income (loss) for the period	**(527,278)**	216,376

Revenues and Gross Profits

Revenues were $1,440,985 in the quarter ended February 28, 2015, representing a decrease of $1,456,550, or 50%, compared to $2,897,535 in the quarter ended February 28, 2014. Sales of heat recovery systems decreased by $1,116,326 (63%) from the same period of the previous year, while sales of GEM® Condensate return systems decreased by $340,224 (31%).

Heat recovery revenues in the third quarter of the previous year included $0.6 million in revenue from the partial installation of a $3.6 million heat recovery system announced June 3, 2013, as well as $0.9 million from the substantial completion of two installations at a major food and beverage company. Although the third quarter of the current year included the substantial completion of a further installation at the same food and beverage company, there was no other significant activity, since the four heat recovery projects announced during the quarter, totaling $2.1 million, were either not started prior to quarter end or commenced at the very end of the quarter.

The decrease in GEM® Condensate return system revenues was predominantly due to the lack of sales to hospitals in the current quarter compared to the same quarter of the prior year, which saw $326 thousand from the substantial completion of a conversion at a major hospital.

The gross profit of $711,906 in the quarter ended February 28, 2015 represents a decrease of $679,265, or 49%, from the $1,391,171 achieved in the quarter ended February 28, 2014. These results expressed as a percentage of sales were 49.4% in the third quarter of FY 2015 compared with 48.0% in the third quarter of FY 2014. The margin improved despite a decrease in percentage of revenues coming from GEM sales, as a result of improved margins on the heat recovery projects in the current quarter.

Expenses

Administration, selling, marketing and business development expenses in the quarter ended February 28, 2015 totaled $1,392,551 compared to $1,360,367 in the quarter ended February 28, 2014, an increase of $32,184, or 2.4%. The decrease in commissions payable resulting from the reduced revenues was offset by the costs associated with the addition of extra sales staff plus the effect of the strengthening of Sterling and the U.S. Dollar against the Canadian Dollar.

Research and development costs in the third quarter of FY 2015 of $38,182 compared to a credit of $35,079 in the third quarter of FY 2014. The increase in the current year was due to the timing of R&D credits, which were $34,412 in the current quarter, compared to $118,564 in the same period of the previous year. Work continues on the ISTP project in China, which constitutes the majority of the current period costs, as well as work developing GEM related products.

Finance revenue in the quarter ended February 28, 2015 of $12,134 compared to $53,489 recognized in the quarter ended February 28, 2014. The interest rate implicit in the lease of 14.3% is applied against the reducing finance lease receivable balance, hence lower finance revenues as the term of the agreement progresses.

Loss before income taxes for the quarter ended February 28, 2015 was $706,693 compared to income of $86,449 in the same quarter of the previous year. The decrease in profitability was the direct result of lower revenues.

Income tax recovery in the third quarter of FY 2015 was $49,101, compared to an expense of $29,145 in the third quarter of FY 2014. This was the result of a loss within the UK entity in the third quarter of FY 2015 compared to a tax generating profit in the same period of the previous year.

Net loss for the quarter ended February 28, 2015 was $657,592 compared to a net income of $57,304 in the same quarter of the previous year.

Comprehensive loss was $527,278 for the third quarter of FY 2015 compared to income of $216,376 for the third quarter of FY 2014. Both periods saw a weakening of the Canadian Dollar against both the US Dollar and Sterling, generating a positive exchange difference.

Related Party Transactions

Options outstanding for Directors (excluding the CEO) as at February 28, 2015 were 1,250,000 of which 1,083,333 were exercisable. There were no warrants outstanding for Directors.

Options outstanding for Senior Management (including the CEO) as at February 28, 2015 were 11,189,110 of which 7,740,750 were exercisable. There were no warrants outstanding for Senior Management.

Directors and Senior Management Compensation

During the quarter ended February 28, 2015 compensation arrangements for directors was as follows:

$15,000 per annum per Director plus an additional $9,000 per annum payable to the Chairman of the Board, $6,000 per annum payable to the chairperson of the Audit Committee, $6,000 per annum payable to the chairperson of the Ethics, Governance and Compliance Committee and $1,000 payable for each in-person meeting.

During the quarter ended February 28, 2015, Directors fees paid were $22,500. Fees to the Chairperson of the Audit Committee were $1,500; fees to the Chairperson of the Ethics, Governance and Compliance Committee were $1,500 and fees paid to the Chairman were $2,250. One in-person meeting was held during the period.

Compensation paid to directors and officers during the quarter ended February 28, (inclusive of the amounts described above but excluding stock based compensation) was as follows:

	Salaries and fees		Incentives		Other short-term benefits		Total	
	2015 **$**	2014 $	**2015** **$**	2014 $	**2015** **$**	2014 $	**2015** **$**	2014 $
Directors								
M. Williams	**6,250**	6,250	**-**	-	**-**	-	**6,250**	6,250
J. Kelly	**7,000**	7,000	**-**	-	**-**	-	**7,000**	7,000
D. Gibbs (resigned November 6, 2014)		4,750	**-**	-	**-**	-		4,750
W. Ollerhead	**4,750**	4,750	**-**	-	**-**	-	**4,750**	4,750
B. Linton	**6,250**	4,750	**-**	-	**-**	-	**6,250**	4,750
J. Schoenmakers	**4,750**	4,750	**-**	-	**-**	-	**4,750**	4,750
D. Spagnolo (appointed November 6 ,2014)	**4,750**	-	**-**	-	**-**	-	**4,750**	-
Total	**33,750**	32,250	**-**	-	**-**	-	**33,750**	32,250
Senior Management								
W. Crossland	**60,000**	60,000	-	-	**-**	-	**60,000**	60,000
J. Flynn	**39,406**	37,065	-	-	**6,112**	5,753	**45,518**	42,818
R. Triebe	**38,425**	37,306	-	-	**2,874**	2,648	**41,299**	39,954
S. Mawby	**38,691**	36,394	-	-	**5,992**	5,640	**44,683**	42,034
M. Francoeur	**29,520**	27,849	-	-	**1,676**	1,500	**31,196**	29,349
I. Wales (appointed June 1, 2014)(1)	**6,076**	-	**-**	-	**1,247**	-	**7,323**	-
G. Bailey (left January 31, 2014)	**-**	14,932	**-**	-	**-**	2,415	**-**	17,347
Total	**212,118**	213,546	-	-	**17,901**	17,956	**230,019**	231,502
Total Related Party Transactions	**245,868**	245,796	**-**	-	**17,901**	17,956	**263,769**	263,752

(1) Isobel Wales is currently on maternity leave.

Other short-term benefits include cash payments for social security costs, employee benefits, and payments made into defined contribution pension plans of the Company's UK based subsidiaries.

Normal Course Issuer Bid

On October 29, 2014, the Company announced its intent to continue with the Normal Course Issuer Bid ("NCIB"), as established a year earlier, for a further period of twelve months. The NCIB was approved by the TSX Venture Exchange on November 3, 2014. During the 12-month period commencing November 3, 2014 and ending November 3, 2015, the Company is able to purchase on the TSX up to 13,018,133 common shares, representing approximately 10% of the then issued and outstanding common shares. The actual number of common shares purchased, if any, and the timing of such purchases will be determined by the Company by considering market conditions, share prices, its cash position, and other factors.

In the quarter ended February 28, 2015 the Company purchased 128,000 common shares for a total purchase price of $9,920 (2014: 77,000 purchased for a total purchase price of $4,388).

3.2 Summary of Year to Date Results

	Nine months ended Feb 28, 2015	Nine months ended Feb 28, 2014
	$	$
Revenue	**4,275,131**	8,433,803
Cost of Sales	**(1,840,847)**	(4,197,751)
Gross Profit	**2,434,284**	4,236,052
Administration, selling, marketing and business development expenses	**(4,370,162)**	(4,227,230)
Research and development expenses	**(119,381)**	(100,371)
Operating income (loss)	**(2,055,259)**	(91,549)
Finance Revenue	**53,489**	103,973
Income (loss) before income taxes	**(2,001,770)**	12,424
Income taxes (expense) recovery	**184,595**	(75,799)
Net income (loss) for the period	**(1,817,175)**	(63,375)
Exchange differences on translation of overseas operations	**66,837**	393,600
Total comprehensive income (loss) for the period	**(1,750,338)**	330,225

Revenues and Gross Profits

Revenues of $4,275,131 in the first three quarters of FY 2015 represented a decrease of $4,158,672, or 49%, compared to $8,433,803 in the same period of FY 2014. Sales of heat recovery systems decreased by $3,112,084 (63%) from the same period of the previous year, while sales of GEM® Condensate return systems decreased by $1,046,588 (30%).

The decrease in heat recovery sales was due to the prior period including an additional $2 million in revenue from the installation at the major pulp and paper company plus $0.7 million from the substantial completion of an installation at a major hospital. Both periods saw progress on projects at another hospital and at a food and beverage manufacturer but in both cases the revenues recorded were higher in the previous period. In the case of the food and beverage manufacturer, last year's revenue included substantial work on two heat recovery systems while this year only included substantial work on one heat recovery system. Historically, large-value heat recovery orders have resulted in significant fluctuations in our revenue from one period to another. The investment in our sales force over the past year, combined with working with customers at their corporate level, should start to generate a larger volume of orders of varying sizes. We intend to continue expanding our sales team, and over the longer term, we expect to capitalize on our enhanced sales capabilities as well as the significant potential for cross selling and other repeat business with a number of our multinational customers."

The lack of major orders from hospitals partly contributed $0.6 million to the decrease in GEM® Condensate return system sales in the first nine months of FY 2015 compared to the same period of FY 2014. In addition, sales were down both in North America and the rest of the world, partly due to the previous year including just under $0.5 million revenue from the company's largest single GEM order to a major multinational food and beverage manufacturer, as announced July 3, 2013.

The gross profit of $2,434,284 in the nine months ended February 28, 2015 represented a decrease of $1,801,768, or 43%, from the $4,236,052 achieved in the nine months ended February 28, 2014. This decrease was the direct result of reduced revenues. These results expressed as a percentage of sales were 56.9% in the first three quarters of FY 2015 compared with 50.2% in the first three quarters of FY 2014. The increased margin results from a higher percentage of revenues coming from the sales of GEM® Condensate return systems in the current period, as well as higher margins achieved on heat recovery projects than in the prior year.

Expenses

Administration, selling, marketing and business development expenses for the nine months ended February 28, 2015 totaled $4,370,162 compared to $4,227,230 for the nine months ended February 28, 2014, an increase of $142,932, or 3.4%. This increase was mainly the result of additional sales and marketing staff along with a group sales training conference held in June 2014, plus the strengthening of Sterling and the U.S. Dollar against the Canadian Dollar, which served to produce higher net costs of the U.K. and U.S. subsidiaries in the functional currency of the Company. These cost increases were partially offset by reduced commissions resulting from lower revenues in the current nine month period.

Research and development costs in the first three quarters of FY 2015 totaled $119,381 compared to $100,371 in the same period of FY 2014. Both periods saw credits received against R&D expenditure, with $116 thousand in the current year and $118 thousand in the prior year. The Company had previously received an offer of government funding through ISTP Canada, as announced February 8, 2012. The funding agreement was signed by both parties on January 21, 2013. Funding is credited to research and development costs when it is received.

Finance revenue in the nine months ended February 28, 2015 of $53,489 compared to $103,973 recognized in the nine months ended February 28, 2014. The interest rate implicit in the lease of 14.3% is applied against the reducing finance lease receivable balance, hence lower finance revenues as the term of the agreement progresses.

Loss before income taxes for the nine months ended February 28, 2015 was $2,001,770 compared to income of $12,424 in the same period of the previous year. The increased loss was predominantly the direct result of lower revenues, as well as costs associated with the increase in sales staff numbers.

Income tax recovery in the first three quarters of FY 2015 was $184,595, compared to an expense of $75,799 in the same period of FY 2014. This was the result of a loss within the UK entity in the first nine months of FY 2015 compared to a tax generating profit in the same period of the previous year.

Net loss for the nine months ended February 28, 2015 was $1,817,175 compared to a net loss of $63,375 in the same period of the previous year.

Comprehensive loss was $1,750,338 for the nine months ended February 28, 2015 compared to income of $330,225 for the nine months ended February 28, 2014. Exchange differences arising on translation of overseas operations were positive in both periods due to the continued weakening of the Canadian Dollar each year, though the effect was greater in the previous year.

3.3 Liquidity and Capital Resources

The working capital was $919,399 at February 28, 2015 compared to working capital of $2,770,280 at May 31, 2014 – a decrease of $1,850,881, with the Company's net cash position (Cash and cash equivalents less Bank loans) decreasing by $900,526 from $2,046,417 at May 31, 2014 to $1,145,891 as at February 28, 2015.

The Company's working capital position over the last eight quarters can be summarized as follows:

	May 31, 2013 $	Aug 31, 2013 $	Nov 30, 2013 $	Feb 28, 2014 $	May 31, 2014 $	Aug 31, 2014 $	Nov 30, 2014 $	Feb 28, 2015 $
Current Assets	3,642,680	3,604,594	6,184,899	5,729,213	5,273,288	4,533,588	3,722,822	3,768,369
Current Liabilities	2,090,659	2,199,528	4,361,002	3,899,718	2,503,008	2,415,447	2,193,708	2,848,970
Working Capital	1,552,021	1,405,066	1,823,897	1,829,495	2,770,280	2,118,141	1,529,114	919,399

Q3 FY 2015 Changes

Current assets increased in the third quarter of FY 2015 by $45,547 to $3,768,369, despite the finance lease receivable decreasing by $247,749 as the lease continues its final year. Cash increased by $107,466 as initial deposits received for heat recovery projects were greater than payments out to contractors on existing projects, while other assets had a combined increase of $185,830.

Current liabilities, meanwhile, increased by $655,262 to $2,848,970, mainly due to an increase in deferred revenue of $582,354 relating to deposit billings paid in relation to contracts with two food manufacturers, as announced December 1, 2014 and January 26, 2015 respectively, plus a contract with a major hospital, as announced January 29, 2015.

As at February 28, 2015, $316,793 (23.9%) of the Company's trade receivables balance was over 90 days past due, of which $168,472 was recovered after the quarter end. None of the overdue balance is considered impaired as at February 28, 2015.

At February 28, 2015, the Company has operating lease commitments as shown below. The Company had no purchase obligations:

	Total $	Less than 1 year $	1-5 years $	More than 5 years $
Operating Leases	332,822	146,245	186,577	nil

Net cash used in operating activities in the quarter ended February 28, 2015 was $137,757, compared to net cash provided of $241,461 in the quarter ended February 28, 2014. The cash used was the result of the decrease in net income for the period, which was partially offset by receipts of deposits on heat recovery projects.

Net cash provided by investing activities for the quarter ended February 28, 2015 of $244,195 comprised $247,749 finance lease principal payments received less $3,554 paid for additions to property, plant and equipment. This compared to $29,329 finance lease principal payments received, while the customer commenced a period of market downtime, less $9,473 paid for additions to property, plant and equipment for the quarter ended February 28, 2014.

A total of $9,920 was used in investing activities in the third quarter of FY 2015, for the repurchase of Class A common shares under the Normal Course Issuer Bid, as announced October 30, 2014. The same period of the previous year saw $83,032 such investment.

After allowing positive $10,948 for the effect of exchange rate fluctuations on cash and cash equivalents, the net result of the above activities was an increase in cash balance of $107,466 over the third quarter of FY 2015, compared to an increase of $177,556 over the same quarter of FY 2014

Adjusted operating cash outflow (defined as net income or loss attributable to the owners of the parent, plus items not involving cash, after net tax and interest cash inflows or outflows, plus finance lease payments received) for the quarter ended February 28, 2015 was $466,693, compared to cash inflow of $196,242 for the quarter ended February 28, 2014. The increase in outflow for the quarter compared to the same quarter of last year was predominantly the result of the lower revenues plus increased staff costs, partially offset by increased finance lease payments in the current quarter as the plant was fully operational.

In addition to its net cash balance of $1,145,891 as at February 28, 2015 the Company also had an estimated $160,000 of unused borrowing capacity under its bank loans. With cash balances and unused borrowing capacity of approximately $1,305,891, management believes that it has sufficient capital resources to fund existing operations and anticipated capital requirements in FY 2015.

Order backlog as at February 28, 2015 was approximately $3.6 million compared to $4.9 million at the same time last year. As at April 21, 2015, the Company had $4.6 million in projects in respect of which purchase orders have been received that had not yet been reflected as revenue in the Company's published quarterly financial statements.

The Company's ability to realize its assets and discharge its liabilities depends on any combination of the following: the continued financial support of its shareholders, its ability to arrange long-term financing and its ability to generate sufficient cash from operations. No assurance can be given that any such additional funding will be available or that, if available, it can be obtained on terms favorable to the Company.

Management is concentrating on building upon the revenue growth experienced in years FY 2010 through to FY 2014 and continuing to manage expenditures in order to produce positive cash flows from operations in order to meet the Company's obligations. The Company earned an income from operations in the year ended May 31, 2014.

A reconciliation of Net cash provided (used) in operating activities to adjusted operating cash flow is shown below:

	Quarter ended February 28	
	2015 $	2014 $
Net cash provided (used) in operating activities	(137,757)	241,641
Changes in working capital	(576,685)	(74,548)
Finance lease principal payments received	247,749	29,329
Adjusted operating cash flow	(466,693)	196,422

Net Investment in Lease

The Company's net investment in lease includes the following:

	Feb 28, 2015 $	May 31, 2014 $
Total estimated minimum lease payments receivable	340,502	962,274
Less: unearned income	(3,747)	(57,235)
	336,755	905,039
Less: current portion	(197,225)	(765,509)
	139,530	139,530

Finance lease receivable relates to one arrangement. The estimated minimum lease payments receivable in this lease represent the estimated monthly energy outputs of the leased asset and are based on assumptions regarding the efficiency of the asset, the operations of the plant in which it is located and penalty payments resulting from temporary plant shut-downs. On December 31, 2012, the lease with Fortress Specialty Cellulose, as signed on June 29, 2010, expired. On November 27, 2012, an agreement was signed whereby the customer agreed to purchase the recovered energy for a further two years, after which the customer has the option to renew for an additional 24 months on substantially the same terms or purchase the asset from the Company. This new agreement was recorded in accordance with the previous lease, resulting in an increase to net investment in lease of $1,546,318. In subsequent periods, until the expiry of the new lease on December 31, 2014, finance revenue will be recognized within the income statement at the interest rate implicit in the lease.

On December 22, 2013, the site commenced a market downtime for a period of ten weeks, following the imposition of an interim duty in China on the import of Canadian dissolving pulp, further to which on April 11, 2014, an agreement was made to further extend the existing lease by five months to May 2015, in order to ensure both continued savings for the customer and total payments to the Company as defined within the previous extension. The Company is currently in negotiations with the customer regarding the continuation of the lease following its expiry in May 2015.

Future estimated minimum lease payments receivable, and expected residual value of equipment at the end of the lease, under the sales-type lease are as follows:

	$
Less than one year	200,972
Residual value of equipment	139,530
	340,502

The estimated residual value of the equipment at the end of the new lease has been determined by assigning depreciation rates to various pieces of the equipment in order to derive a reasonable expected selling price or re-use value for the equipment upon the termination of the agreement. The residual value of the equipment is not guaranteed.

3.4 Segmented Information

In the quarters and nine month periods ended February 28, 2015 and February 28, 2014, the Company operated in the energy efficiency industry in North America, Europe, China and the rest of the world. The Company markets, sells, engineers, fabricates, constructs, installs and supports two technology lines – heat recovery solutions and condensate return system solutions. The Company is also developing a third technology line - low temperature biomass drying systems. Assets are located in Canada, Europe and China.

Management reporting comprises analysis of revenue and gross profit by product segment within two distinct geographical areas. All other items of revenue and expenses are considered on a geographical and/or global basis in making strategic decisions regarding the Company's future. The Company has two operational bases ("reporting units"), one in Canada covering North America and China ("Thermal Energy Ottawa"), and the other in Bristol, United Kingdom, covering Europe and the rest of the world ("Thermal Energy Bristol"). These areas are determined by proximity of the region to the reporting unit, plus the location of the contracts in existence with agents and distributors in the respective areas and the historical relationships with those agents and distributors. Corporate costs that cannot easily be attributed to either of the two reporting units are included in reconciling items. The chief operating decision maker focuses on revenues and costs by geographical segments, but manages assets and liabilities on a global basis.

Segment information for the quarter ended February 28, 2015 and the comparative period are detailed in the table below.

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling items		Total	
	2015 $	2014 $	**2015 $**	2014 $	**2015 $**	2014 $	**2015 $**	2014 $
Total revenue	**665,108**	1,750,205	**775,877**	1,147,330	**-**	-	**1,440,985**	2,897,535
Cost of sales	**(505,551)**	(1,119,754)	**(223,528)**	(386,610)	**-**	-	**(729,079)**	(1,506,364)
Gross profit	**159,557**	630,451	**552,349**	760,720	**-**	-	**711,906**	1,391,171
Amortization of intangible assets	**-**	-	**-**	-	**-**	-	**-**	-
Other expenses	**(509,284)**	(481,731)	**(668,933)**	(630,117)	**(252,516)**	(213,440)	**(1,430,733)**	(1,325,288)
Finance revenue	**12,134**	20,566	**-**	-	**-**	-	**12,134**	20,566
Income (loss) before income taxes	**(337,593)**	169,286	**(116,584)**	130,603	**(252,516)**	(213,440)	**(706,693)**	86,449
Income taxes (expense) recovery		10,300	**41,441**	(13,202)	**7,660**	(26,243)	**49,101**	(29,145)
Net income (loss)	**(337,593)**	179,586	**(75,143)**	117,401	**(244,856)**	(239,683)	**(657,592)**	57,304
Attributable to:								
Owners of the parent	**(334,278)**	182,012	**(77,336)**	114,953	**(244,856)**	(239,683)	**(656,470)**	57,282
Non-controlling interest	**(3,315)**	(2,426)	**2,193**	2,448	**-**	-	**(1,122)**	22

Segment information for the nine months ended February 28, 2015 and the comparative period are detailed in the table below.

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling items		Total	
	2015 $	2014 $	**2015 $**	2014 $	**2015 $**	2014 $	**2015 $**	2014 $
Total revenue	**1,967,172**	4,696,142	**2,307,959**	3,737,661	**-**	-	**4,275,131**	8,433,803
Cost of sales	**(1,134,528)**	(2,857,055)	**(706,319)**	(1,340,696)	**-**	-	**(1,840,847)**	(4,197,751)
Gross profit	**832,644**	1,839,087	**1,601,640**	2,396,965	**-**	-	**2,434,284**	4,236,052
Amortization of intangible assets	**-**	-	**-**	(8,303)	**-**	-	**-**	(8,303)
Other expenses	**(1,602,477)**	(1,560,166)	**(2,048,926)**	(1,932,576)	**(838,140)**	(826,556)	**(4,489,543)**	(4,319,298)
Finance revenue	**53,489**	103,973	**-**	-	**-**	-	**53,489**	103,973
Income (loss) before income taxes	**(716,344)**	382,894	**(447,286)**	456,086	**(838,140)**	(826,556)	**(2,001,770)**	12,424
Income taxes (expense) recovery	**(134)**	(2,261)	**149,828**	(54,808)	**34,901**	(18,730)	**184,595**	(75,799)
Net income (loss)	**(716,478)**	380,633	**(297,458)**	401,278	**(803,239)**	(845,286)	**(1,817,175)**	(63,375)
Attributable to:								
Owners of the parent	**(711,824)**	378,613	**(300,986)**	392,863	**(803,239)**	(845,286)	**(1,816,049)**	(73,810)
Non-controlling interest	**(4,654)**	2,020	**3,528**	8,415	**-**	-	**(1,126)**	10,435

Other expenses within reconciling items comprise the following:

	Three months ended February 28		Nine months ended February 28	
	2015 $	2014 $	**2015 $**	2014 $
Corporate admin costs	**192,944**	198,884	**560,871**	589,267
Stock-based compensation	**49,395**	47,835	**179,903**	117,318
Professional fees	**10,250**	5,286	**130,741**	134,990
Depreciation of property, plant and equipment	**9,029**	9,273	**26,724**	28,422
Bank charges and interest	**12,028**	11,178	**30,636**	33,980
Foreign exchange differences	**(21,130)**	(59,016)	**(90,735)**	(77,421)
Total	**252,516**	213,440	**838,140**	826,556

Corporate administration costs include directors' fees, all costs relating to both the CEO and CFO, directors and officers insurance, corporate legal costs, public relations costs, professional fees relating to group tax planning and corporate filing costs as well as the Annual General Meeting.

During the three months ended February 28, 2015, Thermal Energy Ottawa had one customer that accounted for 29% of the company's total revenue for the period.

During the three months ended February 28, 2014, Thermal Energy Ottawa had two customers that accounted for 32% and 22% respectively; and Thermal Energy Bristol had one customer that accounted for 11% of the company's total revenue for the period.

During the nine months ended February 28, 2015, Thermal Energy Ottawa had one customer that accounted for 19% of total revenue.

During the nine months ended February 28, 2014, Thermal Energy Ottawa had two customers that accounted for 27% and 18% respectively of total revenue for the period.

Further geographical analysis:

	Revenues for the nine months ended		Property, plant and equipment as at		Goodwill and intangibles assets as at		Finance lease receivable (non-current) as at	
	February 28		**February 28**	May 31	**February 28**	May 31	**February 28**	May 31
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
	$	$	**$**	$	**$**	$	**$**	$
Canada	**421,470**	2,335,776	**50,934**	48,964	**-**	-	**139,530**	139,530
U.S.A.	**1,539,153**	2,339,390	**-**	-	**-**	-	**-**	-
U.K.	**1,555,951**	3,146,453	**17,440**	13,626	**2,081,960**	1,959,270	**-**	-
Germany	**192,972**	43,485	**-**	-	**-**	-	**-**	-
Italy	**232,534**	215,371	**-**	-	**-**	-	**-**	-
Netherlands	**76,399**	84,043	**-**	-	**-**	-	**-**	-
Ireland	**28,925**	36,723	**-**	-	**-**	-	**-**	-
Rest of Europe	**36,636**	13,694	**-**	-	**-**	-	**-**	-
Kenya	**46,539**	36,816	**-**	-	**-**	-	**-**	-
India	**68,412**	150,397	**-**	-	**-**	-	**-**	-
China	**6,549**	20,976	**-**	-	**-**	-	**-**	-
Rest of world	**69,591**	10,679	**-**	-	**-**	-	**-**	-
Total	**4,275,131**	8,433,803	**68,374**	62,590	**2,081,960**	1,959,270	**139,530**	139,530

Material Segmentation Variances

Revenue

Thermal Energy Ottawa: revenue for the quarter ended February 28, 2015 was $665,108 compared to $1,750,205 for the quarter ended February 28, 2014. Heat recovery revenue decreased by $1,016,606, predominantly due to the previous year including the installation at a major pulp and paper company, as announced June 3, 2013, as well the prior period seeing substantial conversions at two sites of a Fortune 500 food and beverage company, compared to just one in the current period. Revenue from sales of GEM® products meanwhile decreased by $68,491 with no significant orders in either period.

Revenue for the nine months ended February 28, 2015 was $1,967,172 compared to $4,696,142 for the nine months ended February 28, 2014. Heat recovery revenue decreased by $2,463,808, again mainly due to the projects mentioned above. Revenue from sales of GEM® products meanwhile decreased by $265,162. The four orders from a major Fortune 500 food and beverage company during the prior year period were replaced with three orders from the same customer in the current period, however GEM® sales overall in the region were down from the same period of the previous year.

Thermal Energy Bristol: revenue for the quarter ended February 28, 2015 was $775,877 compared to $1,147,330 for the same period of the previous year, a decrease of $371,453. Heat recovery revenue decreased by $99,720, with neither period having anything significant in progress. Revenue from sales of GEM® products decreased by $271,733, due to the third quarter of FY 2015 seeing no sales to hospitals, compared to one substantial conversion in the same quarter of FY 2014.

For the nine months ended February 28, 2015 revenue for Thermal Energy Bristol was $2,307,959 compared to $3,737,661 in the same period of the prior year. Heat recovery revenue fell by $648,276 due to the lack of a full system installation in the current period, compared to one in the same period of the prior year. Revenue from sales of GEM® products decreased by $781,426. The lack of orders from hospitals in the current period contributed to the decrease, as well the lack of a replacement for the previous year's order from a major food and beverage manufacturer.

Segment Income (loss) Before Tax

Thermal Energy Ottawa gross profit decreased by $470,894 in the quarter ended February 28, 2015 from the same quarter of the preceding year as a result of the decreased revenue for the region. Other expenses increased by $27,553 from the same quarter of the previous year, with a decrease in commissions due to lower revenues being more than offset by the addition of three sales and marketing staff in the current quarter. A decrease in finance revenue as the lease progresses of $8,432 further served to increase the loss before tax by $506,879 over the same period of the previous year.

For the nine months ended February 28, 2015, gross profit generated by Thermal Energy Ottawa decreased by $1,006,443 due to the decreased revenues, while other expenses grew by $42,311. As in the quarter, decreased commissions were more than offset by the additional sales and marketing staff and staff training costs. With finance revenue decreasing in the first three quarters of FY 2015 by $50,484 from the same period of FY 2014, this resulted in a reduction in profitability for Thermal Energy Ottawa of $1,099,238.

Thermal Energy Bristol gross profit decreased by $208,371 in the quarter ended February 28, 2015 from the same quarter of the preceding year as a result of the decreased revenue. Other net costs increased by $38,816, due in part to the continued strengthening of the pound against the dollar, with reduced commissions being offset by additional sales staff costs. The resulting net loss before tax of $116,584 for the third quarter of FY 2015 compared to a net income of $130,603 for the third quarter of FY 2014.

For the nine months ended February 28, 2015, gross profit generated by Thermal Energy Bristol decreased by $795,325 due to the decreased revenues, while other expenses grew by $108,047. Although additional sales and marketing staff and staff training costs did not consume all of the decrease in commission payable, the strengthening of Sterling against the dollar served to produce higher net costs in the functional currency of the Company. This resulted in a reduction in profitability for Thermal Energy Bristol of $903,372.

Other expenses within reconciling items, which incorporates all costs not specifically attributable to the either regional operational center, amounted to $252,516 in the third quarter of FY 2015 compared to $213,440 in the third quarter of FY 2014, with the increase being due to less favorable exchange rate fluctuations in the current quarter compared to the same period of last year.

For the nine months ended February 28, 2015, other expenses within reconciling items totaled $838,140, an increase of $11,584 over the same period of FY 2014. This was mainly due to an increase in stock based compensation being partially offset by favorable exchange rate fluctuations in the current period over the same period of last year.

Quarterly financial information (unaudited)
For the eight quarters ended February 28, 2015

Quarter ended	28-Feb-15 $	30-Nov-14 $	31-Aug-14 $	31-May-14 $
Revenue	1,440,985	1,662,805	1,171,341	4,717,007
Gross Profit	711,906	1,019,426	702,952	2,737,568
Gross Profit Percentage	49.4%	61.3%	60.0%	58.0%
EBITDAS(1)	(647,245)	(486,557)	(658,108)	709,637
Total net income (loss)	(657,592)	(491,164)	(668,419)	654,740
Income (loss) per share, basic and diluted	(0.004)	(0.003)	(0.004)	0.004

Quarter ended	28-Feb-14 $	30-Nov-13 $	31-Aug-13 $	31-May-13 $
Revenue	2,897,535	4,014,145	1,522,123	1,879,450
Gross Profit	1,391,171	1,874,869	970,012	746,358
Gross Profit Percentage	48.3%	46.7%	63.7%	39.7%
EBITDAS(1)	144,664	311,366	(286,423)	(424,414)
Total net income (loss)	57,304	238,079	(358,758)	(2,685,427)
Income (loss) per share, basic and diluted	0.000	0.001	(0.002)	(0.016)

(1) EBITDAS represents earnings before interest, taxation, depreciation, amortization, share-based compensation expense and net write down of lease.

4. Business Outlook

- In June 2012, the Company received an order for approximately $562,000 from a publicly owned hospital for a heat recovery solution. This order was partially completed in FY 2013 and the customer is currently deciding on changes it may wish to be made before the project is continued. It is not yet known when this project may be completed.

- On August 27, 2014, the Company announced that it had received a purchase order valued at approximately $810,000 from a leading Fortune 500 food and beverage conglomerate for the installation of a heat recovery system at one of its facilities. The order was expected to be fulfilled and revenue earned over the next six months. As at February 28, 2015, the project was almost 90% complete.

- On December 1, 2014 the Company announced that it had received a purchase order valued at approximately $415,000 from a packaged foods company for the installation of a heat recovery system at one of its facilities. The order is expected to be fulfilled and revenue earned over the next six months. As at February 28, 2015, the project was only 5% complete.

- On January 5, 2015 the Company announced that it had received a purchase order valued at approximately $260,000 from a leading regional manufacturer of interior lining products for the construction industry for the installation of a heat recovery system at one of its facilities. The order is expected to be fulfilled and revenue earned over the next six months.

- On January 26, 2015 the Company announced that it had received a purchase order valued at approximately $626,000 from a producer of several leading food brands for the installation of a heat recovery system at one of its facilities. The order is expected to be fulfilled and revenue earned over the next six months. As at February 28, 2015, the project was approximately 10% complete.

- The Company's order backlog as at February 28, 2015 was approximately $3.6 million. As at April 21, 2015, the Company had an order backlog of approximately $4.6 million, of which approximately $0.5 million is related to long term contracts and is not expected to be reflected in revenue within the next 12 months.

5. Summary of Outstanding Shares and Dilutive Instruments

The Company currently has the following shares and dilutive instruments outstanding:

Shares

159,531,616 class A common shares.

Options

Number of Options outstanding	Number of Options Exercisable	Exercise Price Per Share $	Expiry Date
2,450,000	**2,450,000**	**0.10**	**04-May-2015**
2,250,000	**2,250,000**	**0.10**	**10-May-2016**
250,000	**250,000**	**0.10**	**12-Jul-2016**
4,340,000	**4,340,000**	**0.10**	**01-Dec-2016**
4,820,000	**3,213,334**	**0.10**	**22-Nov-2017**
3,411,000	**1,137,000**	**0.05**	**18-Nov-2018**
3,721,360	**-**	**0.10**	**28-May-2019**
250,000	**-**	**0.08**	**01-Dec-2019**
21,492,360	**13,640,334**		

6. Critical Accounting Estimates and Changes in Accounting Standards

Critical Accounting Estimates

The preparation of financial statements in accordance with IFRS necessitates the use of management estimates, assumptions and judgment that affect reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities at the date of the financial statements. Although management reviews its estimates on an ongoing basis, actual results may differ from these estimates as confirming events occur. The following components of the financial statements depend most heavily on such management estimates, assumptions and judgment, any changes in which may have a material impact on the Company’s financial condition or results of operations. For more information about certain assumptions and risks that may affect these estimates, assumptions and judgments, please see the “Forward Looking Information” section of this MD&A.

Valuation of goodwill and intangible assets and asset impairment

Goodwill and intangible assets are tested annually for impairment, or earlier if circumstances indicate an impairment.

An impairment loss is recognized for the amount by which an asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each asset or cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary, and may cause significant adjustments to the Company's assets within the next financial year.

In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

Future production outputs relating to the finance lease

When a new finance lease or amendment is signed, in determining minimum lease payments receivable, management makes estimates regarding monthly energy outputs of the leased asset based on assumptions regarding the efficiency of the asset, the operations of the plant in which it is located, penalty payments resulting from temporary plant shut-downs and residual value of the equipment. These assumptions relate to future events and circumstances.

Assumptions used in the Black-Scholes fair value calculations

The estimation of share-based payment expense requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. In calculating the share-based payment expense, key estimates such as the rate of forfeiture of options granted, the expected life of the option, the volatility of the Company's stock price and the risk free interest rate are used.

Allowance for Doubtful Accounts

The valuation of allowances for uncollectible trade receivables requires assumptions including estimated credit losses based on customer and industry concentrations and the Company's knowledge of the financial conditions of its customers.

Revenue Recognition relating to contracts for heat recovery solutions

The stage of completion of any heat recovery solutions contract is assessed by management by taking into consideration all information available at the reporting date. In this process, management exercises significant estimate about milestones, actual work performed and the estimated costs to complete work.

Deferred tax assets

Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized. These estimates are reviewed at every reporting date. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of the reversal of existing differences, future taxable income and future tax planning strategies.

Changes in Accounting Standards

The Company has adopted the following new or amended accounting standards.

Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets"
In May 2013, the IASB issued Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36). The IASB has issued amendments to reverse the unintended requirement in IFRS 13, Fair Value Measurement, to disclose the recoverable amount of every CGU to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, recoverable amount is required to be disclosed only when an impairment loss has been recognized or reversed. The amendments impact certain disclosure requirements only, and the amendments did not have a material impact on the Consolidated Financial Statements.

At the date of this discussion, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Company. These standards will be adopted at the effective date.

Management anticipates that all of the pronouncements will be adopted in the Company's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued, but are not expected to have an impact on the Company's consolidated financial statements.

Amendments to IAS 32, "Financial Instruments: Presentation"
In December 2011, the IASB issued amendments to IAS 32, which clarifies the existing requirements for offsetting financial assets and financial liabilities. These amendments are effective for annual periods beginning on or after January 1, 2014, which will be June 1, 2014 for the Company. The adoption of the amendments to IAS 32 will not have a material impact on the consolidated financial statements.

IFRS 9, "Financial Instruments"
In November 2009 the IASB issued IFRS 9, Financial Instruments (IFRS 9 (2009)), and in October 2010, the IASB published amendments to IFRS 9 (IFRS 9 (2010)).

In November 2013, the IASB issued a new general hedge accounting standard, which forms part of IFRS 9 Financial Instruments (2013). The new standard removes the January 1, 2015 effective date of IFRS 9.
In July 2014, the IASB determined that IFRS 9 would be mandatorily effective for annual periods beginning on or after January 1, 2018. The extent of the impact of this standard has not yet been determined.

IFRS 15, "Revenue from Contracts with Customers"
In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers", which provides a single, principles-based five-step model for revenue recognition to be applied to all customer contracts, and requires enhanced disclosures. This standard is effective January 1, 2017 and allows early adoption. The Company does not intend to adopt this standard early and is currently evaluating the impact of adopting this standard on the consolidated financial statements.

IFRIC 21, "Levies"

In May 2013, the IASB issued IFRIC 21, Levies which provides guidance on accounting for levies in accordance with the requirements of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It also notes that levies do not arise from executor contracts of other contractual arrangements. The interpretation also confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs. This IFRIC is effective for annual periods beginning on or after January 1, 2014 and is required to be applied retrospectively. Adoption of IFRIC 21 did not have a material impact on the Company's consolidated financial statements.

7. Risk Factors and Risk Management

Management is confident about our long-term prospects, but does recognize that the company is exposed to a number of risks in the normal course of business that could negatively impact the financial condition of the Company.

Operational risks of the company include the ability to continue to secure and implement sales contracts for its GEM® and FLU-ACE® technology solutions.

Financial risks and uncertainties of the Company include:

- The Company's history of operating losses and uncertainty of future profitability;
- The ability to grow sales through the establishment of new cooperative partnerships and strategic alliances;
- The ability to grow sales through the licensing of the corporation's technologies;
- The ability to secure and maintain the required outside working capital financing;
- The ability to achieve profitable operations through increased sales,
- Reliance on third party collaborations and license arrangements;
- Reliance on proprietary technology;
- Competition in the energy conservation and environmental compliance solutions;
- Product liability claims and insurance;
- Reliance on key personnel;
- The ongoing litigation with its former President & CEO;
- The ability to control costs and achieve a positive gross margin on projects; and,
- The effect of a continuing prolonged recession in Canada, USA and Europe to the financial markets in securing project financing and in particular to industrial and commercial customers in committing capital to projects.

Management's addressing of the risks:

FY 2012 saw the Company's first ever net profit, which was the result of increased revenues and strict cost control. FY 2013, however, produced an operating loss of $844,328, resulting from diminished revenues and increasing costs. Despite further cost increases as management continue to build the sales force, FY 2014 produced the company's best ever post-tax income of $634,023 as well as an increase in cash balance of $742,022. The first nine months of FY 2015 have again produced a net loss of $1,817,175. Management has increased sales and marketing staff numbers over the past two years in the expectation that revenues will rise as a consequence. Management is constantly monitoring cash flows as well as costs overall in addition to the effect of increased staffing so that rapid strategic decisions can be made when required.

The Company actively protects its proprietary technology through registered trademarks and confidentiality agreements.

The Company maintains forms of general liability insurance including product liability and errors and omission coverage.

Management believes that competition against its core technology of GEM®, FLU-ACE® and DRY-REX™ is limited at this time and believes that the market place is large enough to mitigate the risk of stronger competition in the future.

8. Forward-Looking Information

This MD&A contains certain "forward-looking statements." All statements, other than statements of historical fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future (including, without limitation, statements regarding financial and business prospects and financial outlook) are forward looking statements. These forward-looking statements reflect the current expectations or beliefs of Management, based on information currently available to the Company. Forward-looking statements are subject to a number of risks, uncertainties and assumptions that may cause the actual results of the Company to differ materially from those discussed in the forward-looking statements and, even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on the Company. Factors that could cause actual results or events to differ materially from current expectations include, among other things, changes in general economic and market conditions, changes to regulations affecting the Company's activities, and uncertainties relating to the availability and costs of financing needed in the future. Any forward-looking statement speaks only as at the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking statement, whether as a result of new information, future events or results or otherwise. Although Management believes that the assumptions inherent in the forward-looking statements are reasonable, forward-looking statements are not guarantees of future performance and, accordingly, undue reliance should not be put on such statements due to the inherent uncertainty therein.

9. Management's Responsibility for Financial Reporting

In compliance with the Canadian Securities Administrators' National Instrument 52-109 ("NI 52-109"), the Company has filed with applicable Canadian securities regulatory authorities, certificates signed by its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") that, among other things, report on the design and effectiveness of disclosure controls and procedures and the design of internal controls over financial reporting.

Under the supervision of the CEO and CFO, the Company maintains systems of internal accounting and administrative controls to provide reasonable assurance that the financial information is relevant, reliable and accurate and that transactions are authorized, assets are safeguarded and proper records are maintained. Internal controls over financial reporting, no matter how well designed, have inherent limitations and may not prevent or detect all misstatements. There were no changes to the Company's internal control over financial reporting during the quarter ended February 28, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting principally through its Audit Committee.